

Message Text

LIMITED OFFICIAL USE

PAGE 01 MANILA 13485 01 OF 03 050515Z

12

ACTION TRSE-00

INFO OCT-01 EA-11 NEA-10 ISO-00 CIAE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 CEA-02

STR-08 AGR-20 DRC-01 /225 W
----- 033682

P 050350Z DEC 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9545

INFO AMEMBASSY ISLAMABAD PRIORITY

LIMITED OFFICIAL USE SECTION 1 OF 3 MANILA 13485

USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 6/30/74

TAGS: EAID, EFIN, PK

SUBJ: PROPOSED ADB LOANS FOR MULTAN FERTILIZER PROJECT (PAKISTAN)

REF: MANILA 10796

SUMMARY: ADB MANAGEMENT PROPOSES TWO LOANS TOTALING \$27.0 MILLION, OF WHICH \$19.25 MILLION TO BE FROM ORDINARY CAPITAL RESOURCES AND \$7.76 MILLION FROM SPECIAL FUNDS RESOURCES, TO ISLAMIC REPUBLIC OF PAKISTAN TO ASSIST IN FINANCING FOREX COST OF MODERNIZATION AND EXPANSION OF EXISTING FERTILIZER FACTORY, LOCATED IN PAKISTAN'S MAJOR AGRICULTURAL CENTER IN PUNJAB PROVINCE, BY CONSTRUCTING AMMONIA PLANT, NITRIC ACID PLANT AND NITROPHOSPHATE PLANT. PROJECT ENVISAGES PARALLEL FINANCING WITH IBRD AND EQUITY PARTICIPATION BY GOVT OF PAKISTAN AND ABU DHABI NATIONAL
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 13485 01 OF 03 050515Z

OIL CO. USADB RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC R112-73 WITH ATTACHMENTS DESCRIBING PROPOSED LOANS POUCHED ADDRESSEES NOV 29. BOARD CONSIDERATION SCHEDULED DEC 19.

2. ADB MANAGEMENT PROPOSING \$19.25 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES AND \$7.75 MILLION LOAN FROM SPECIAL FUNDS RESOURCES TO ISLAMIC REPUBLIC OF PAKISTAN. PROCEEDS WILL ASSIST IN FINANCING FOREX COST OF MODERNIZING AND EXPANDING EXISTING MULTAN FERTILIZER PLANT TO PRODUCE AMMONIA, NITROPHOSPHATES AND CALCIUM AMMONIUM NITRATE (CAN). PROJECT INCLUDES CONSTRUCTION OF AMMONIA PLANT DESIGNED TO PRODUCE 910 METRIC TONS/DAY, NITRIC ACID PLANT WITH 1200 M.T.D. CAPACITY, 1029 M.T.D. CAPACITY FERTILIZER GRADE NITROPHOSPHATE PLANT WITH AT LEAST 80 PERCENT PHOSPHATE WATER SOLUBILITY, ALONG WITH 1500 M.T.D. CAN UNIT; AND OFF-SITE AND AUXILIARY FACILITIES INCLUDING POWER PLANT. PROPOSED TERMS ARE 15 YEAR AMORTIZATION INCLUDING 4 YEAR GRACE PERIOD, 7 1/2 PERCENT INTEREST FOR ORDINARY CAPITAL LOAN AND 40 YEAR AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, ONE PERCENT INTEREST FOR SPECIAL FUNDS LOAN. ISLAMIC REPUBLIC OF PAKISTAN TO BE BORROWER AND PAKARAB FERTILIZER, LTD. (PFL), THE EXECUTING AGENCY. GOVT WILL RELEND BANK LOANS TO PFL AT 9 1/4 PERCENT INTEREST.

3. AGRICULTURE CONTRIBUTES 38 PERCENT TO PAKISTAN'S TOTAL GDP AND ABOUT 40 PERCENT OF EXPORT EARNINGS. IT ALSO ABSORBS 55 PERCENT OF LABOR FORCE. TO ACHIEVE BREAK-THROUGH IN AGRICULTURAL PRODUCTION, GOVT IS PRESSING FOR INCREASED USE OF WATER, FERTILIZERS, IMPROVED SEEDS AND INSECTICIDES. OF 47.5 MILLION ACRES OF CULTIVATED AREAS, 33 MILLION ACRES ARE IRRIGATED. DESPITE CONSTRAINTS INCLUDING LACK OF SUITABLE CREDIT AND IRRIGATION FACILITIES AVAILABLE TO SMALL FARMERS, FERTILIZER CONSUMPTION HAS INCREASED QUITE RAPIDLY SINCE 1961/62, DUE LARGELY TO GREATER AWARENESS OF BENEFITS OF FERTILIZER BENEFITS AMONG FARMERS AND GOVT'S EFFORTS TO INCREASE ITS USE THROUGH HEAVY SUBSIDIES. HOWEVER, FERTILIZER CONSUMPTION IN PAKISTAN IS STILL AMONG LOWEST IN WORLD AND SUBSTANTIAL PORTION HAS TO BE IMPORTED. FERTILIZER IMPORTS IN 1972/73 LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 13485 01 OF 03 050515Z

COST \$43.4 MILLION AND ARE PROJECTED TO AMOUNT TO \$80-\$100 MILLION IN 1973/74 DUE TO INTENSIVE GOVT PROGRAM TO INCREASE AGRICULTURAL PRODUCTION.

4. DOMESTIC PRODUCTION OF FERTILIZER BEGAN IN 1957, AND IN 1972/73 PAKISTAN'S FIVE EXISTING PLANTS PRODUCED 520,000 M.T. OF UREA, 100,000 M.T. OF AMMONIUM SULPHATE, 66,000 M.T. OF CAN AND 42,000 M.T. OF SINGLE-SUPERPHOS-

PHATE FOR TOTAL OF 310,000 NUTRIENT TONS OF NITROGEN AND 8000 NUTRIENT TONS OF PHOPHOROUS PENTOXIDE. TWO LARGEST PLANTS (ESSO AND DAWOOD) ARE IN PRIVATE SECTOR AND PRODUCE UREA. OTHER THREE PLANTS BELONG TO WEST PAKISTAN INDUSTRIAL DEVELOPMENT CORP (WPIDC), A GOVT-CONTROLLED ORGANIZATION ESTABLISHED IN 1962 TO PROMOTE ECONOMIC AND INDUSTRIAL DEVELOPMENT OF PAKISTAN. WPIDC OWNS AND OPERATES NATURAL GAS FERTILIZER FACTORY (NGFF) AT MULTAN IN PUNJAB PROVINCE, WHICH WAS COMPLETED IN 1962 UNDER FRENCH ASSISTANCE AND HAS PRESENT ANNUAL CAPACITY OF 67,000 TONS OF UREA AND 120,000 TONS OF AMMONIA NITRATE LIMESTONE USING LOCALLY AVAILABLE NATURAL GAS. (MULTAN AND NEIGHBORING FOUR DISTRICTS TOGETHER ACCOUNT FOR ABOUT 40 PERCENT OF COUNTRY'S TOTAL FERTILIZER CONSUMPTION.) HOWEVER, TWO AMMONIA UNITS HAVE NEVER CONSISTENTLY ATTAINED RATED CAPACITY DUE TO INHERENT DESIGN AND MECHANICAL PROBLEMS, AND UREA PLANT PRODUCES CRYSTALLINE PRODUCT FREQUENTLY UNMARKETABLE DUE TO CAKING (PARAS 46-49 OF LOAN DOCUMENT).

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 MANILA 13485 02 OF 03 050532Z

16

ACTION TRSE-00

INFO OCT-01 EA-11 NEA-10 ISO-00 CIAE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 CEA-02

STR-08 AGR-20 DRC-01 /225 W
----- 033826

P 050350Z DEC 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9546

INFO AMEMBASSY ISLAMABAD PRIORITY

LIMITED OFFICIAL USE SECTION 2 OF 3 MANILA 13485

USADB

5. WITH GROWING FERTILIZER REQUIREMENTS OF COUNTRY, GOVT DECIDED TO EXPAND AND MODERNIZE PLANT. PRELIMINARY FEASIBILITY STUDY WAS PREPARED BY ARTHUR D. LITTLE, INC. IN COLLABORATION WITH CHEMICAL CONSULTANTS (PAKISTAN) LTD. GOVT THEN DECIDED TO DECOMMISSION EXISTING OB-SOLETE AMMONIA UNIT AND REPLACE IT WITH LARGER NEW AMMONIA PLANT TO FEED EXISTING AND NEW FERTILIZER UNITS, AS WELL AS TO MANUFACTURE HIGH WATER-SOLUBLE FERTILIZER GRADE NITROPHOSPHATE AND CAN. PROJECT FIRST PROPOSED TO BANK IN JULY 1972 FOR PARTIAL FINANCING OF FOREX COST. IN MARCH 1973, WPIDC ENTERED INTO AGREEMENT WITH ABU DHABI NATIONAL OIL CO (ADNOC) OWNED BY EMIRATE OF ABU DHABI WHEREBY ADNOC AGREED TO PROVIDE \$11.2 MILLION FOR 30 PERCENT OF EQUITY OF JOINT VENTURE COMPANY TO BE CALLED PAKARAB FERTILIZERS, LTD., TO IMPLEMENT MODERNIZATION AND EXPANSION OF HCFF. PFL WAS REGISTERED ON NOV. 10, 1973 AND IS TO BE OPERATED AS COMPLETELY INDEPENDENT AUTONOMOUS COMPANY HAVING ITS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 13485 02 OF 03 050532Z

OWN ELECTED BOARD OF DIRECTORS. IN MEANTIME, BECAUSE OF SIZE OF EXPANSION PROJECT -- WITH FOREX REQUIREMENT NOW ESTIMATED AT \$74.75 MILLION -- GOVT PROPOSED PROJECT TO BANK AND IBRD FOR PARALLEL FINANCING OF \$62.0 MILLION OF FOREX COST, WITH GOVT TO PROVIDE \$1.25 MILLION REMAINDER NEEDED IN ADDITION TO ADNOC'S \$11.2 MILLION EQUITY CONTRIBUTION, PROPOSED BANK FINANCING OF \$27 MILLION AND IBRD LOAN OF \$35 MILLION. REQUIRED NATURAL GAS IS AVAILABLE FROM SUI GAS FIELDS. GOVT HAS ASSURED THAT SUI-MULTAN PIPELINE FACILITIES WILL BE ENLARGED

TO INCREASE PIPELINE CAPACITY BY TIME PROJECT BEGINS PRODUCTION.

6. TOTAL COST OF PROJECT, INCLUDING WORKING CAPITAL, IS ESTIMATED AT \$99.3 MILLION EQUIVALENT. BECAUSE IDA FUNDS EARMARKED FOR PAKISTAN HAVE BEEN LARGELY ALLOCATED ALREADY TO PROJECTS FOR FLOOD DAMAGE REPAIRS, WORLD BANK GROUP'S PARALLEL FINANCING LIKELY TO BE ENTIRELY FROM IBRD FUNDS AT 7 1/4 PERCENT INTEREST AND IS EXPECTED TO BE APPROVED IN FEB 1974. (APPROVAL OF IBRD LOAN IS CONDITION OF LOAN EFFECTIVENESS OF BANK'S LOANS.) PROPOSED BANK FINANCING TO BE APPLIED TO FINANCE ENTIRE COST OF NITRIC ACID AND NITROPHOSPHATE PLANTS, INCLUDING PROCESS, TECHNOLOGY AND SERVICES OF ENGINEERING CONTRACTORS RE PLANT ENGINEERING, TENDER PREPARATION, CONSTRUCTION SUPERVISION, ETC., PLUS INTEREST AND OTHER CHARGES DURING CONSTRUCTION. PROPOSED IBRD LOAN TO FINANCE SIMILAR COST ITEMS FOR AMMONIA PLANT IN ADDITION TO UTILITIES AND OFF-SITES. ADNOC AND GOVT RESPECTIVE

EQUITY PARTICIPATIONS WILL ASSIST IN FINANCING OFF-SITES AND ENGINEERING CONTRACTORS' SERVICES. LOCAL CURRENCY COST ESTIMATED AT \$25.48 MILLION TO BE MET FROM PFL'S OWN RESOURCES AND EQUITY.

7. EXCEPT FOR "LONG DELIVERY ITEMS", PROCUREMENT CONTRACTS TO BE AWARDED IN ACCORDANCE WITH BANK'S GUIDELINES FOR PROCUREMENT. CONTRACTS OF \$75,000 OR MORE TO BE SUBJECT TO INTERNATIONAL COMPETITIVE BIDDING AND REQUIRE PRIOR BANK APPROVAL; CONTRACTS LESS THAN \$75,000 TO BE AWARDED ON BASIS OF REASONABLE COMPETITION WITHOUT PRIOR BANK APPROVAL. RE ENVIRONMENTAL PROTECTION, GUARANTEES BEING ASKED THAT EFFLUENTS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 13485 02 OF 03 050532Z

DO NOT EXCEED SAFE VALUES AS GENERALLY ACCEPTED IN DEVELOPED COUNTRIES. SPECIAL FUNDS LOAN PROCEEDS TO BE ALLOCATED FOR NITRIC ACID PLANT EQUIPMENT, WHILE ORDINARY CAPITAL PROCEEDS TO BE ALLOCATED FOR ENGINEERING CONTRACTORS, EQUIPMENT FOR NITROPHOSPHATE-CAN PLANT AND INTEREST AND OTHER CHARGES DURING CONSTRUCTION (APPENDIX TO SIDE LETTER NO. 1). ENGINEERING CONTRACTORS TO BE ENGAGED FOR EACH PLANT ON FIXED FEE BASIS TO PROVIDE PROCESS LICENSE AND BASIC TECHNOLOGY, COMPLETE PROCESS DESIGN AND PLANT ENGINEERING, TO ASSIST IN PREPARING TENDER PROCEDURES AND SUPERVISE CONSTRUCTION. CONTRACTOR SELECTED FOR AMMONIA PLANT TO BE FINANCED BY IBRD WILL PROVIDE OVERALL COORDINATION OF ERECTION OF PLANTS. (ADVANCE ACTION TAKEN RE RECRUITING ENGINEERING CONTRACTORS TO EXPEDITE PROJECT AND SECURE CAPITAL COST ESTIMATES WERE DESCRIBED IN ADB DOC IN 53-73 DTD AUG 15 AND DISCUSSED REFTEL DTD SEPT 24.) NO CONSULTANTS TO BE RECRUITED UNDER BANK LOANS. TECHNICAL ADVISORY TEAM TO BE FINANCED UNDER IBRD LOAN TO ASSIST AND ADVISE ON PLANT

CONSTRUCTION AND OPERATION. LOCAL ENGINEERING FIRM TO ASSIST WITH ALL CIVIL WORKS. LOCALLY FINANCED CONSULTING FIRM, WHICH ASSISTED IN PREPARING FEASIBILITY STUDY (PARA 5 ABOVE), WILL BE RETAINED UNTIL PROJECT COMPLETION, MAINLY TO ASSIST PFL MANAGEMENT DURING IMPLEMENTATION PHASE.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 MANILA 13485 03 OF 03 050516Z

16

ACTION TRSE-00

INFO OCT-01 EA-11 NEA-10 ISO-00 CIAE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 CEA-02

STR-08 AGR-20 DRC-01 /225 W
----- 033726

P 050350Z DEC 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9547

INFO AMEMBASSY ISLAMABAD PRIORITY

LIMITED OFFICIAL USE SECTION 3 OF 3 MANILA 13485

USADB

8. PFL, AS EXECUTING AGENCY, WILL BE ASSISTED BY LOCAL CONSULTANT AS WELL AS IBRD-FINANCED TEAM OF TECHNICAL ADVISORS. UNTIL ASSETS OF NGFF ARE TRANSFERRED TO PFL ON JULY 1, 1976 TO INCORPORATE THEM IN NEW PLANT, CHAIRMAN OF WPIDC WIGB BE PFL CHAIRMAN. MEANWHILE, PFL WILL TAKE OVER MULTAN STAFF AND EMPLOYEES, WHO WILL BE RESPONSIBLE TO PFL'S MANAGING DIRECTOR. AGREEMENT REACHED WITH GOVT AND WPIDC THAT PFL SHOULD OPERATE ON STRICTLY COMMERCIAL LINES AS AUTONOMOUS COMPANY AND IN COMPETITION WITH OTHER PUBLIC AND PRIVATE FERTILIZER COMPANIES. IN THIS REGARD, ASSURANCES RECEIVED THAT IMPROVEMENTS IN PAY STRUCTURES SHOULD BE MADE PROMPTLY TO ENSURE EFFICIENT RUNNING OF EXPANDED PLANT AND THAT STAFF QUALITY, SALARIES AND OPERATING PROCEDURES WILL AT LEAST MATCH THOSE OF PRIVATE SECTOR FERTILIZER COMPANIES. PFL WILL CARRY FOREX RISK ON ALL LOANS.

9. AS NITRO-PHOSPHATIC FERTILIZERS ARE RELATIVELY NEW TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 13485 03 OF 03 050516Z

FARMERS, AND HIGH WATER SOLUBLE PHOSPHATES HAVE NEVER BEEN IMPORTED INTO PAKISTAN, GOVT HAS AGREED TO IMPORT SUCH FERTILIZERS PRIOR TO PROJECT COMPLETION FOR PROMOTIONAL PURPOSES TO FAMILIARIZE FARMERS WITH THEIR USE.

10. PROPOSED PROJECT HAS HIGH PRIORITY IN CONTEXT OF GOVT'S POLICY TO ATTAIN FOOD SELF-SUFFICIENCY AND TO INCREASE AGRICULTURAL OUTPUT AND EXPORTS. BANK CONSIDERS PROJECT TO BE ECONOMICALLY SOUND, TECHNICALLY FEASIBLE AND FINANCIALLY VIABLE. ECONOMIC RATE OF RETURN ESTIMATED AT 33.9 PERCENT AND FINANCIAL RATE OF RETURN 10.6 PERCENT AFTER TAXES. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

11. REQUEST ISLAMABAD'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972. SULLIVAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSTRUCTION, PETROLEUM INDUSTRY, TECHNICAL ASSISTANCE, COSTS, BANK LOANS, FERTILIZERS, INDUSTRIAL PLANTS, AMMONIA, PHOSPHATES, JOINT VENTURES, CONSULTANTS, FOREIGN EXCHANGE, INTEREST RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 05 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973MANILA13485
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731244/aaaabgeg.tel
Line Count: 343
Locator: TEXT ON-LINE
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: MANILA 10796
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 01 FEB 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01-Feb-2002 by collinp0>; APPROVED <08 MAR 2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PROPOSED ADB LOANS FOR MULTAN FERTILIZER PROJECT (PAKISTAN)
TAGS: EAID, EFIN, PK, ADB, IBRD
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005